

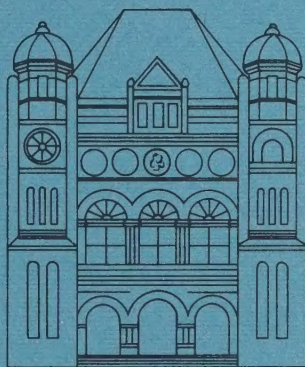
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ONTARIO AND CANADIAN ECONOMIES**

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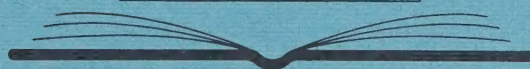
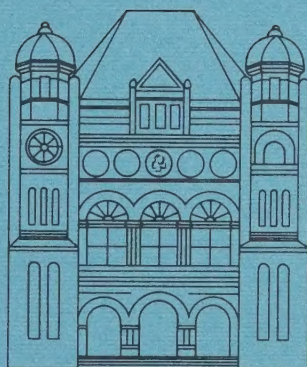


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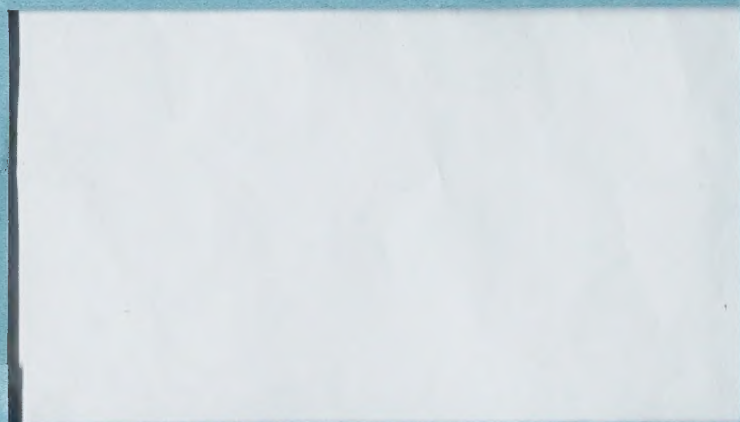
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INTRODUCTION

This paper provides a brief overview of leading indicators and projections related to the Ontario and Canadian economies. It discusses the impact of the recent recession on various sectors of the economy and on employment levels. Projections for economic growth from lending firms and economists are outlined. These projections were largely contained in submissions presented before the Ontario Standing Committee on Finance and Economic Affairs in its pre-budget hearings of January 1993.

THE CANADIAN ECONOMY

The recent recession has had a serious effect on the Canadian labour force and pushed the national unemployment rate into the 11% range (4 January 1993). Since 1989, more than 350,000 jobs have disappeared in the manufacturing sector alone.¹ The economy's gradual upswing over the last three quarters of 1992 has helped it recover barely one-quarter of the 476,000 jobs lost during the recession.² The majority of job losses, as well as wage roll-backs, have been imposed on "unskilled" workers. This has led many economists to start discussing the possibility of a wide-spread polarization between white collar workers and their unskilled blue collar counterparts.³

In past recessions large employment cuts have tended to be confined to highly cyclical industries such as construction and resources. The service sector, however, has also faced major employment cuts since 1990. For example, more waiters, cooks and other restaurant workers have lost their jobs during the recession than building construction workers. Food stores were another major source of job losses as highly automated technology helped to eliminate almost 38,000 jobs from these firms.⁴ Some Canadian industries did manage to create jobs during the recession and the leaders in this area have been in the insurance, accounting, advertising, and energy sectors.⁵

Canadian Economy — TD Bank 1992 Appraisal

TD Bank economists have indicated that the Canadian economy appears to be on track for a real growth rate increase of 1.2% in 1992. They expect interest rates to continue to fall in early 1993 and project that this trend will help boost consumer and business confidence. Fourth-quarter earnings for 1992 appear to be relatively strong since exports and manufacturing shipments have increased sharply and employment continues to rise slowly. TD economists estimate that the Canadian economy will grow by 3.1% in 1993 and 4.0% in 1994.

The service sector continued to be a major source of strength for the Canadian economy in 1992. Service sector output increased by 2% in comparison to a 0.4% decline in the goods producing sector of the economy. However, restructuring throughout Canada's manufacturing sector has led to solid productivity gains in 1992. In combination with a falling dollar, this has significantly improved the competitive position of Canadian manufacturers. TD economists believe that real manufacturing output will grow by 4% in 1993 and expand by close to 6% in 1994.

Construction activity is expected to continue to decline in the non-residential sector in 1993, but residential housing construction is forecast to rise from 170,000 units in 1992 to 180,000 units in 1993. Strong growth in the mining sector during 1992 (3%) is expected to continue in 1993 with projections in the 4% growth range. Growth in the utilities sector should reach the 3% level in 1993 while growth rates in the wholesale and retail sectors are expected to rise by 4.5%.⁶

ONTARIO'S ECONOMY

The recession appears to have had the most serious impact on the Ontario economy. According to Martin Mittelstaedt of the *Globe and Mail*, Ontario has suffered nearly 60% of all Canadian job losses during the recent economic downturn.⁷ Ontario Treasurer Floyd Laughren, however, has indicated that Ontario's recessionary job losses have accounted for as much as three-quarters of Canada's recession related job-

losses.⁸ In human terms, the Conference Board of Canada has estimated that the recession has eliminated over 300,000 jobs in Ontario. Significantly, the Board concluded that many of these job losses were the result of permanent labour-saving capital investments in Ontario businesses.⁹

According to Brian Hollohan of the Conference Board, a considerable portion of Ontario's economic problems in the recent recession have emerged from the very strengths that have made it Canada's largest and most diversified economy (e.g. industrial structure, proximity to markets). Sixty-five percent of Ontario's job losses have been in the manufacturing sector. A considerable portion of these losses can be linked to increased competition for Ontario's share of North American trade. High interest rates, an overvalued currency, weak aggregate demand, and the dynamics of plant rationalization have also contributed to the manufacturing sector's problems. Many Ontario businesses have been forced to downsize, sell off non-essential operations, and upgrade their capital equipment. This adjustment process appears to have set the stage for future improvements and contributed to increased productivity and lower unit labour costs within the Ontario economy.¹⁰

Ontario's primary sector (forestry, mining, agriculture) accounts for 3% of real domestic production in the province, but has been in a depressed state since 1991. The construction industry lost 7% of its value in 1990 and 1991, and is only expected to grow by 0.4% in 1992. The industry is unlikely to recover quickly due to a significant over-supply of commercial and industrial property in most parts of Ontario. Construction sector growth will likely have to come from the residential portion of the market.

The service sector has managed to hold its own during the recent recession. While the goods producing sector faced approximately a 5% decline in 1990 and 1991, the service sector managed to maintain a flat growth level. In fact, moderate growth was reported in the public administration, finance, insurance, and real estate sectors. Growth in the service sector is also expected to outpace the goods sector in 1992.¹¹

TD Bank

The TD Bank's 1993 economic forecast for Ontario predicts 3.2% economic growth. This growth level is attributed to a strengthening manufacturing sector and a rebound in housing starts.¹²

DRI Canada

DRI projects the following growth rates for key sectors of the Ontario economy:

- Forestry — 5.6% increase in 1993 based on strong residential construction and a lower dollar.
- Mining — Despite low commodity price forecasts, mining production is expected to recover in 1993 and post strong double digit growth in 1994.
- Manufacturing — Decreasing interest rates, a lower Canadian dollar, and stronger U.S. demand are expected to raise Ontario's manufacturing growth rate by 5.7% in 1993. Leading growth areas will likely include wood products (20%), transportation equipment (9.9%), non-metallic minerals (7.6%) and chemicals (7.6%). Stronger growth in the machinery sector is expected in 1994 after corporate profits improve.
- Residential Construction — Growth rate may reach 12.5% in 1993.
- Services — The service sector is expected to remain strong in 1993 and 1994. Growth rates are forecast to reach the 4 to 5% range.
- Unemployment — Ontario's unemployment rate should remain high and is not expected to dip below 11% until 1995.¹³

CIBC

The Canadian Imperial Bank of Commerce (CIBC) forecast calls for Ontario's economy to grow by 3.1% in 1993 while the provincial jobless rate falls to 10.6%. Strong growth is expected in the transportation equipment sector, plastics, forestry, and electrical/electronic products. Industries based on primary metals, machinery and equipment, construction, and mining, however, are expected to lag behind growth in the overall economy. CIBC economists have stressed that the recovery is expected to

be weak in the northern portions of the province and far stronger in the Greater Toronto Area. The rest of Ontario is expected to experience growth approximating the provincial average.¹⁴

Scotiabank

The Ontario economy appears to be stabilizing due primarily to lower interest rates and the depreciation of the Canadian currency. Bank economists do not expect Ontario to experience any vigorous economic expansion in the near future. They predict that Ontario's economy will grow by only 2.2% in 1993 and lag behind the national average. Ontario is expected to continue struggling with the same widespread rationalization that has reduced employment by 5.5% since 1990. Most of these job losses have been permanent and will likely take a significant amount of time to replace.

Scotiabank economists expect employment conditions in the construction and manufacturing sectors to improve, but they envision only limited growth in the public sector and in other service-oriented businesses. Scotiabank also makes the following predictions:

- Motor Vehicle Output — up 4%.
- Housing Starts — up 10%.

Bank economists argue that continued demographic expansion favours increased economic growth in the province. Ontario is the destination of more than half of the new arrivals to Canada (100,000 in 1992). The challenge will be to create enough jobs to accommodate Ontario's expanding population.¹⁵

Royal Bank of Canada

The Royal Bank Economics Department indicates that the Ontario economy has remained sluggish due to restructuring pressures, low inflation, and a significant level

of uncertainty in government policies. A reduction in the province's manufacturing capacity has led to productivity and competitiveness improvements that should help the Ontario economy sustain stable growth levels.

In the short-term, Royal Bank economists expect business conditions in Ontario to remain "very difficult." The Bank estimates that Ontario's economic output will expand by 3.4% in 1993 and 4.1% in 1994. In terms of employment, Royal Bank officials forecast a gradual increase of 1.6% in 1993 and 2.2% in 1994. This increase is still expected to remain below the employment peak reached in 1989.

The Royal Bank believes that consumer confidence will improve in 1993 and lead to stronger retail sales. Retail sales are projected to rise by 3.8% in 1993 and 5.5% in 1994. Greater housing affordability, lower interest rates, and an increase in government subsidized housing should raise housing starts to 70,000 in 1993 and 76,550 in 1994. Additional areas of growth include transportation equipment (it likely will remain on an upswing into 1994) and non-residential investment (up 2.3% in 1993 and 10.7% in 1994).¹⁶

Ontario Government Pre-Budget Submission

According to the pre-budget testimony of Ontario Treasurer Floyd Laughren, Ontario's economic growth in 1993 will be led by traditional industries including housing and auto exports. Laughren expects modest growth in consumer products. He also believes that growth in business services and knowledge-oriented industries will be based on strong business investment and restructuring.

In the short-term, the Ontario Government expects the province's real economic growth rate to increase by 3.8% in 1993 and its employment growth to increase by 2.1% during the same period. The provincial unemployment rate is projected to drop to 10.6% in 1993.¹⁷

CONCLUSION

The general conclusion that emerges from the forecasts cited within this paper suggests that the Ontario and Canadian economies are passing through a gradual economic recovery phase. This recovery is unlikely to produce any dynamic expansion over the next two years and it may also fail to provide major relief from current levels of double digit unemployment. It does appear, however, that the Canadian and Ontario economies are growing stronger. Continuing economic growth will have to be maintained for a significant period if these economies are to restore even their pre-recessionary levels of employment and economic activity.

FOOTNOTES

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